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C O N F I D E N T I A L SECTION 01 OF 03 BEIJING 002630

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TAGS: [ETRD](#) [EFIN](#) [ECON](#) [PREL](#) [WTRO](#) [CH](#)

SUBJECT: PRC REACTS TO U.S. TIRE SAFEGUARDS

REF: A. BEIJING 2626  
    [1](#)B. BEIJING 2525  
    [1](#)C. BEIJING 02441  
    [1](#)D. BEIJING 2299  
    [1](#)E. STATE 85673  
    [1](#)F. BEIJING 2439

Classified By: A/DCM WWEINSTEIN FOR REASONS 1.4 (b), (d) and (e).

[1](#)1. (C) SUMMARY: Official Chinese reaction to the U.S. decision announced September 11 to impose Section 421 tariffs against Chinese tire imports has thus far been contained to the trade sector, in line with PRC indications to the high-level interagency delegation in Beijing last week. MOFCOM announced on September 13 the initiation of anti-dumping and countervailing duty (AD/CVD) investigations against imports of U.S. auto products and poultry, though the scope is unclear. MOFCOM also informed Embassy that China will file a formal request in Geneva this week for WTO consultations on the U.S. action. MOFCOM has confirmed that the Joint Commission on Commerce and Trade (JCCT) will continue and has yet to demarche the embassy on this issue. Press outcry against the U.S. decision has been widespread and negative, often calling for retaliation, and the blogosphere has been deluged by a storm of passionate anti-U.S. commentary on the decision. While it is possible that media/netizen outcry, if it intensifies, could prompt top policymakers to ratchet up China's reaction/retaliation, for now they seem inclined to contain fallout and protect positive atmospherics in the run up to Presidential bilateral. END SUMMARY.

[1](#)2. (C) In the wake of the White House September 11 announcement of the imposition of tariffs on Chinese tire imports under Section 421, public official reaction has been centered at MOFCOM, with apparently only one exception: a statement issued today by the MFA spokesperson. MOFCOM Minister Chen Deming roundly criticized the U.S. decision to Xinhua reporters on September 12, and MOFCOM issued a statement the same day. Unsurprisingly, such commentary criticized U.S. action as unjustified and protectionist, and the U.S. negotiating stance as unreasonable and inappropriately extending beyond the tire sector. The MFA statement said the U.S. failed to honor its G20 Summit commitments and "abused" trade remedy measures. The lack of rhetorical extremes, and the fact that other senior officials have not weighed in

suggests a degree of restraint.

13. (C) More direct bilateral interaction thus far suggests the PRC is trying to compartmentalize a reaction that is commensurate with U.S. remedies, in line with what MOFCOM VM Zhong Shan told Deputy USTR Marantis last week. MOFCOM Minister Chen Deming accepted Ambassador Kirk's call on Saturday, evincing readiness to discuss bad news directly rather than hash out the issue in the press. And, while decrying the U.S. decision, he notably stated that he looked forward to meeting USTR Kirk at the upcoming JCCT meetings in late October. Also, the PRC has yet to call the Ambassador in to complain about the decision, as has been their practice during other critical events. Embassy working level contacts with the PRC continued apace September 14, with no attempt by Chinese interlocutors to suspend extensive work underway to prepare several JCCT working groups. Combined, these official interactions and statements offer reason to believe that the Chinese planned response to the U.S. tariff on tires is a measured one.

14. (C) That plan seems thus far to target WTO-consistent and financially commensurate retaliation. The PRC told USTR Washington September 14 it will file for WTO consultation on our decision. On September 12, MOFCOM announced the initiation of anti-dumping and countervailing duty investigations of imports of U.S. auto products and poultry. (Note: those two sectors, as well as cotton and soybeans, were on a list of possible responses previewed to the Marantis delegation. End Note.) MOFCOM has not yet shared a copy of the petitions in question, so it is impossible to estimate the scope, but U.S. chicken imports in 2008 totaled

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over USD 523 billion; motor cars over USD \$1 billion. Considering that the key Chinese industry association estimates tariff-induced lost sales at USD \$1.1 billion, retaliation in these two sectors alone could be seen as a neat symmetry.

#### THE WEIGHT OF PUBLIC OPINION

15. (C) While Chinese official reaction to the U.S. announcement was restrained, China's media and netizens were less so. Press commentary has been strikingly widespread. All of the Chinese leading newspapers carried stories about the U.S. tariff on tires today, though many were not front page news. Sources for press reports were mostly MOFCOM, academicians and the Chinese Rubber Association. The bulk of reports called the tariffs a violation of WTO rules, but provided no explanation of how, and a betrayal of the U.S. promise at the last G20 not to implement protectionist measures. Several blamed domestic U.S. politics as the underlying reason for the tariff, saying Obama needs the support of "certain interest groups" for his health reform agenda. Another repeated message was that the tariff sends the "wrong signal" at a time when world economies need to cooperate to overcome the economic downturn. The International Herald Leader predicted that the consequence will be "explosive trade friction between the two countries," while the Global Times English edition said "a trade war would be regrettable, but may be required to create a long-term deterrent to U.S. protectionism."

16. (C) China's netizens were even more vocal, with tens of thousands commenting in emotional opposition to the U.S. decision, and thousands more commenting every half an hour. Several of the most popular web sites have opened special portals dedicated to this issue. As one local employee described it to us today, "it would be hard NOT to hear about this issue since Friday." In recent domestic and international controversies, such as reneging on the requirement that all computers sold in China must have Green Dam software preinstalled or the decision not to allow Coca-Cola to purchase fruit juice maker Huiyuan, the opinion of bloggers on the internet has apparently put pressure on

Chinese officials at times to at least appear to take tougher actions in support of popular sentiment. It remains to be seen, however, in this instance whether the popular netizen protests will maintain or gain momentum and intensity.

#### IMPACT ON CHINA, OTHER BILATERAL ISSUES

¶17. (C) The China Rubber Association estimated the remedies could result in the loss of USD1.1 billion in Chinese exports in tire-making and related industries, down from the USD2.2 billion estimated as recently as this August. Even if true, the macroeconomic impact on China would be fairly insignificant, amounting to 0.4 percent of China,s exports to the U.S., and 0.07 percent of China,s total exports in ¶2008. Job losses, because they would likely occur in the large, economically-recovering regions of the Shanghai, Qingdao, Guangzhou, and Hangzhou (where the major affected factories are based), are unlikely to raise concerns of large-scale social instability.

¶18. (C) Many bloggers and a few commentators have suggested that China sell U.S. treasury bonds to protest the 421 tire decision. At least one large private investment banker based in Beijing indicated to Econoff that she was getting numerous questions from local and international investors about this possibility. We have absolutely no indication that either the Chinese government or large investors are considering this option; not only would it be extremely difficult for reserve managers to find alternative investments, but a large sell-off of treasuries would cause a dramatic drop in the value of the Chinese government,s holdings. At most, this incident has again highlighted China,s continued uncomfortable (an unavoidable) reliance on U.S. Treasuries to absorb its massive foreign exchange reserves; it remains to be seen whether this will help spur real rebalancing with a goal of reducing reserve accumulation, or just additional

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inadequate schemes to try to "diversify" China,s investments.

¶19. (C) COMMENT: China,s reaction thus far appears restrained and contained to the trade sector, pressing the issue in the WTO while at the same time pursuing AD/CVD cases that provide an opportunity from China,s point of view to inflict as much economic damage on the U.S. as it assesses the U.S. move inflicted on China. Given next week,s planned summit meeting on the margins of UNGA and the Pittsburgh Summit, indications are that China will not seek to further escalate its reaction in the coming days. That said, public outcry -- especially by netizens -- could potentially pressure China,s leadership to speak out at a higher level to criticize the U.S. move. END COMMENT  
HUNTSMAN